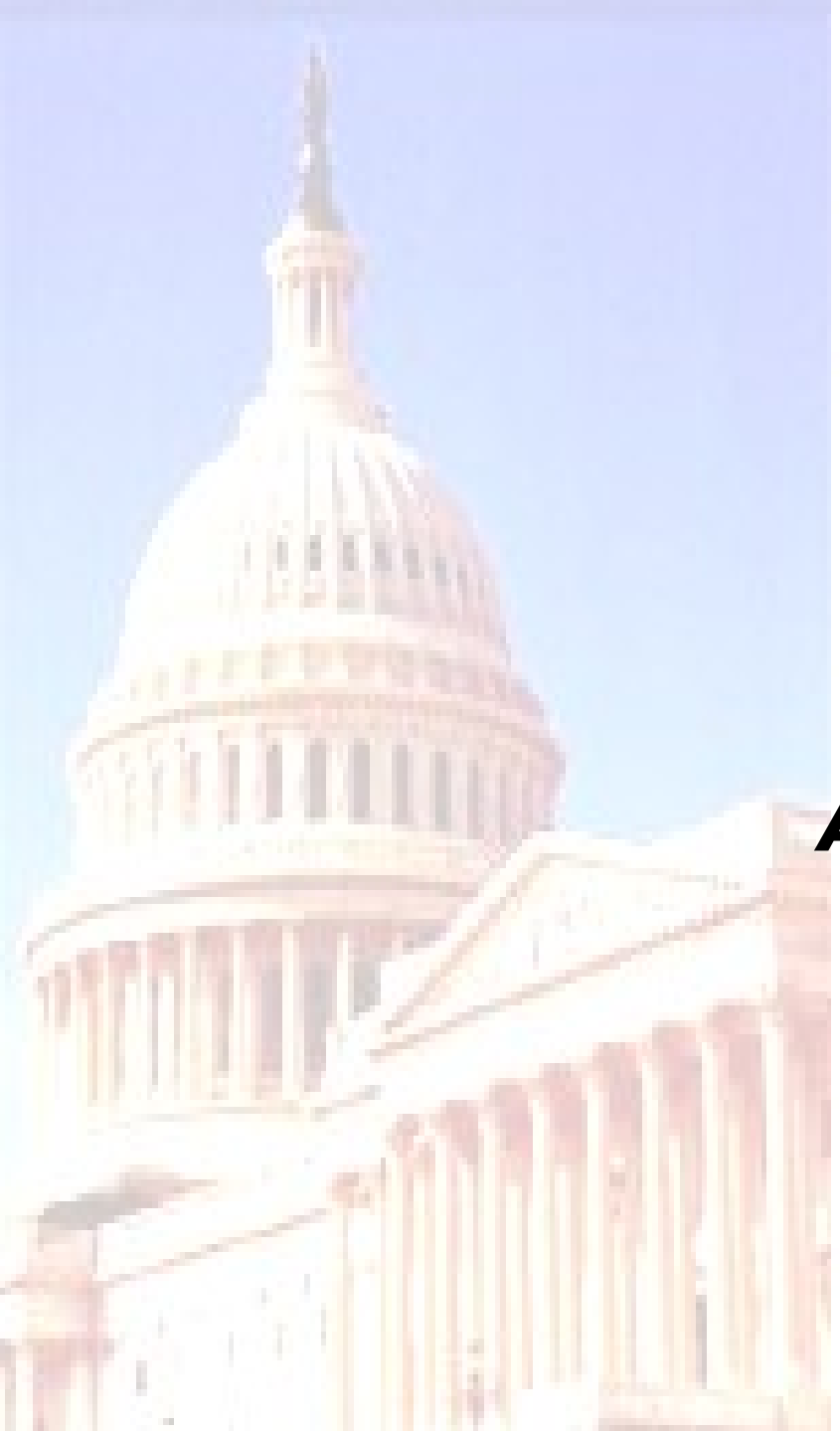

House Industrial Base Provisions

An Industry Perspective

July 1, 2003

Summary of HR 1588 Title VIII, Subtitle B

assive new program content reporting requirements.

uy American requirement for “critical components”.

imination of exemptions and waivers on Buy merican Act and other domestic source requirements.

00% US machine tools on DoD major programs in 2007

crease Buy American Act requirement om 50 to 65 percent.

anada eliminated from domestic industrial base.

Civil-Military Integration

- **The House industrial base provisions would significantly increase cost for commercial companies selling to the Department of Defense as contractors or subcontractors.**

  - Sections 811 and 812 require substantial data gathering and reporting.

  - Sections 828 and 829 would eliminate trade agreements waivers of the BAA making commercial electronics and IT procurements impossible.

  - Integrated commercial/defense contractors would be incentivized to split their organizations to contain cost impact on commercial overhead

  - Access to commercial technology would be hindered.

International Programs

- U.S. aerospace is an exporting industry
  - $30 billion export surplus in 2002.
  - 40 percent of industry products exported.

- Current international programs at serious risk.
  - Existing arrangements prohibited by House provisions
    - Titanium in foreign subsystems (section 822)
    - Requirement for U.S. source for critical components (sec. 813)
    - Buy American Act waivers based on TAA (sec. 828)
    - U.S. machine tool requirements (sec. 826)
  - Existing programs would have to be delayed and restructured

- Interoperability suffers

- U.S. pays full price of development

- Access to foreign technology hindered

- No recognition of our allies' contributions in war on terror
  - U.K.
  - Israel

Program Costs

- Higher overhead
  - Commercial/defense split in contractor organizations.
  - New reporting and compliance systems will be needed.

- Less cost sharing_
  - Less international partner sharing of development and procurement
  - Fewer commercial DoD contractors

- Higher unit costs.
  - Less foreign sales.
  - Less competition in the supplier base.
  - Prices set less by commercial market forces
  - Return to milspecs and regulated cost procedures
  - Costs associated with redesigning and restructuring existing programs to meet new domestic source requirement for critical components

- Massive recapitalization costs required by machine tool provision.

- Higher O&S costs as legacy systems remain in service longer.

Long Term Impacts

- U.S. Foreign Policy encumbered
- Significant delays and cost increases on existing programs
- Transformation at risk
- Fewer systems, less technology in the hands of our Warfighters
- Long-term financial viability of a private sector defense industrial base at risk